

Message Text

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ACTION EUR-12

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E.O. 11652: N/A
TAGS: BTIO
SUBJECT: MAJOR PROJECT: DJERDAP II POWER PROJECT

1. ON APRIL 7 ALLIS-CHALMERS INFORMED EMBASSY BY TELEX THAT JUGOHEMIJA, A-C'S REPRESENTATIVE BELGRADE, HAD BEEN TOLD BY INVEST-IMPORT THAT CONTRACT FOR DJERDAP II WAS AWARDED TO THE SOVIETS. WE SUBSEQUENTLY CALLED INVEST-IMPORT TO DISCUSS CONTRACT AND WERE TOLD THAT THE YUGOSLAV INVESTORS PREFERRED THE SOVIET OFFER FOR PRINCIPALLY TWO REASONS. FIRST, THE TOTAL COST OF THE SOVIET PACKAGE WAS SAID TO BE CONSIDERABLY LOWER. SECOND, THE SOVIET ARRANGEMENTS FOR 100 PERCENT COUNTERTRADE WERE WORKED OUT IN GREATER DETAIL. ACCORDING TO THE INVEST-IMPORT REPRESENTATIVE, THE OFFER OF THE ALLIS-CHALMERS/WESTINGHOUSE CONSORTIUM FOR 100 GDERCENT COUNTERTRADE WAS NOT TAKEN SERIOUSLY BECAUSE THE U.S.COMPANIES WOULD NOT IDENTIFY BEFOREHAND SPECIFIC PROJECTS WHICH THEY INTENDED TO BUT IN ORDER TO FUFILL THE COMMIKENT. THIS OFFICIAL FELT THAT, HAD THE COUNTERTRADE OFFER BEEN SATISFACTORY, THE FACTOR OF ADDITIONAL COST MAY HAVE BEEN OVERCOME AND THE CONTRACT AWARDED TO THE U.S. CONSORTIUM.

2. IT WAS EMPHASIZED THAT THIS DISCUSSION ON DJERDAP II DID NOT RULE OUT U.S. OR OTHER WESTERN PARTICIPATION IN DJERDAP III WHICH WILL BE THE LARGEST AND MOST COSTLY (APPROXIMATELY 200
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MILION DOLLARS) OF THE THREE DANUBE HYDROPOEER FACILITIES. THE TECHNICAL SOLUTIONS REQUIRED FOR THE DJERDAP III PROJECT ARE OF A DIFFERENT MAGNITUDE AND, BACAUSE OF THEIR COMPLEXITY. MAY FAVOR WESTERN FIRMS. SERBIAN POWER AUTHORITIES ARE NOW DRAWING UP SPECIFICATIONS FOR THIS PROJECT.

3. COMMENT: AFTER YUGOSLAV SIGNING OF PROTOCOL ON DJERDAP II

IN MOSCOW RECENTLY, AWARD OF CONTRACT TO SOVIETS COMES AS NO
SURPRISE. WHAT IS PUZZLING IS WHY DJERDAP AND INVEST-IMPORT
AUTHORITIES SO VEHEMENTLY DENIED ITS SIGNIFICANCE. DESPITE
LOSS OF DJERDAP II, EMBASSY CONTINUES TO BELIEVE THAT U.S.
FIRMS HAVE CHANCE FOR PARTICIPATION IN THIRD DANUBE POWER
FACILITY. IN THIS PROJECT U.S. TECHNOLOGICAL EDGE IS LIKELY
TO PROVE MORE DECISIVE AND YUGOSLAVS MAY ALSO BE FREER TO
SELECT WESTERN SUPPLIER SINCE IT WILL BE THE SOLE INVESTOR.
EAGLEUBRGER

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